LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6475 | **NOTE PREPARED:** May 3, 2005
BILL NUMBER: HB 1394 | **BILL AMENDED:** Apr 29, 2005

SUBJECT: Pension and Deferred Compensation Plan Matters.

FIRST AUTHOR: Rep. Stutzman | **BILL STATUS:** Enrolled
FIRST SPONSOR: Sen. M. Young

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: This bill:
(1) allows a political subdivision to offer to its employees both the state employees' deferred compensation plan (State Plan) and a deferred compensation plan that is adopted by the political subdivision and uses one or more private vendors;
(2) requires the board of trustees of the Public Employees' Retirement Fund (PERF) to establish a retirement medical benefits account (account) within the PERF under Section 401(h) or as a separate fund under another applicable section of the Internal Revenue Code, for the purpose of converting unused excess accrued leave to a monetary contribution for state employees to fund on a pretax basis benefits for post-retirement sickness, accident, hospitalization, and medical expenses of the state employees, their spouses, and their dependents;
(3) requires that state employees be able to convert unused accrued excess leave to either the state plan or the account;
(4) requires that the Deferred Compensation Committee adopt, and the State Auditor administer, a pilot program that allows the employees of at least one branch of state government to convert unused accrued excess leave to a monetary contribution to the state plan not later than December 31, 2005;
(5) allows a member of the Teachers' Retirement Fund (TRF) who is receiving a retirement benefit and is a party in an action for dissolution of marriage to elect, before January 1, 2006, in certain circumstances to change the member's designated beneficiary or form of benefit;
(6) extends the pilot program for the Defined Contribution Plan of the Legislators' Retirement System until July 1, 2006;
(7) provides that a monthly pension paid after the date of remarriage and before July 1, 2005, to a surviving spouse of an employee beneficiary who was a member of a sheriff's retirement plan (surviving spouse) shall be treated as properly paid; and
(8) for a surviving spouse whose monthly pension ceased on the date of remarriage, reinstates on July 1, 2005,

the surviving spouse's monthly pension.

Effective Date: Upon passage; July 1, 2005.

Explanation of State Expenditures: *Excess Leave Conversion:* The bill requires the PERF Board to establish a retirement medical benefits account within the PERF Fund for the purpose of converting unused excess accrued leave to a monetary contribution for state employees. The PERF Board is to adopt rules establishing the type and amount of leave that may be converted to a monetary contribution, the conversion formula for valuing any leave that is converted, the manner of employee selection of leave conversion, and the vesting schedule for any leave that is converted. Although there would be some additional administrative expenditures associated with implementation of the retirement medical benefits account, the account is merely an expansion of the potential uses for which unused employee leave may be converted.

The bill also adds a provision requiring the implementation of a pilot program by December 31, 2005. The pilot program is to be administered by the State Auditor under rules adopted by the Department of Personnel. The pilot program is to allow the employees of at least one branch of state government to begin converting unused excess accrued leave to a monetary contribution to the employee's deferred compensation plan. The legislative branch and the judicial branch each represent less than 1% of the total number of state employees.

Existing statute already provides for the conversion of unused accrued leave to the employee's deferred compensation plan, and thus most of the cost associated with leave conversion is attributable to prior legislation and not this bill.

Explanation of State Revenues:

Explanation of Local Expenditures: *Local Deferred Compensation Plans:* The bill should have no impact on local expenditures. Payroll deduction is already used by local entities with third-party administration which is paid by employee earnings.

Explanation of Local Revenues: *Local Deferred Compensation Plans:* If the proposal results in more local employees electing to defer their compensation or if the individual contribution limits are expanded because of the ability to contribute to additional and different types of plans, additional local income tax revenue that would have been paid on their compensation could be deferred to future years. Any impact would likely be small.

State Agencies Affected: Teachers' Retirement Fund; Public Employees' Retirement Fund; State Auditor; Department of Personnel; All other agencies.

Local Agencies Affected: School corporations; Sheriff's Pension Plans; Political subdivisions.

Information Sources: Doug Todd of McCready & Keane, Inc.; actuaries for PERF and many of the Sheriff's Plans, 317-576-1508.

Fiscal Analyst: James Sperlik, 317-232-9866; Al Gossard, 317-233-3546.